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DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

HAVRE, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979



McCauley, Hendrickson & Co.

ACCOUNTING PUBLIC ACCOUNTANTS

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DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

HAVRE, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979

AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined Schedules A and B which summarize reported financial results and cash position of the contract awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to District IV Human Resources Development Council, Havre, Montana, under U.S. Department of Labor Grant Number 30-9-210-48. The Prime Sponsor Contract, Number 9139, was funded from CETA Title IV for the period 11/1/78 - 6/30/79.

The audit disclosed:

- Direct and allocated administrative and resource material costs were not adequately documented.
- Local travel costs were improperly classified.
- Inadequate separation of duties in processing and accounting for cash receipts and disbursements.

Exhibit I lists \$2,394 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the contract will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council. Exhibit I was not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the Contractor for the contract and the period referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller general, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the period examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND

Our audit consisted of an examination of the financial and program records related to the CETA program operated by this Contractor.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Contractor complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the Prime Sponsor with information about the Contractor. The audit covered the period November 1, 1978 to June 30, 1979.

The Contractor examined in this audit was District IV Human Resources Development Council, Havre, Montana. This was the first contract between the Prime Sponsor and the Contractor. Consequently, there was no prior year audit report.

OPINION

Exhibit I lists \$2,394 of questioned costs disclosed by our audit sampling of the Contractor's contract records for the period referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the contract agreement will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, Schedules A and B present fairly, for the dates and period indicated on the Schedules, the financial results of operations and CETA cash position of the contract awarded to District IV Human Resources Development Council in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with the CETA regulations; and Exhibit I presents fairly the costs questioned as a result of our audit.

FINDINGS AND RECOMMENDATIONS

Administrative Costs

The Contractor has claimed allocated administrative costs but the documentation of the allocation method has not been retained.

Recommendation

The Contractor should prepare, document, and obtain approval of a joint direct cost allocation plan.

Classification of Expenditures

The Contractor has claimed local travel costs for transportation of YETP participants. The contract does not provide for such transportation. In addition, these costs are misclassified as to both program activity and grant.

Recommendation

The Contractor should more closely analyze expenditures so that they may be properly classified.

Documentation of Expenditures

The Contractor has claimed resource material costs for which adequate documentation cannot be located. CETA regulations require proper support for all contract expenditures.

Recommendation

The Contractor should institute record retention and filing systems so necessary documentation of costs can be located.

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and main-

taining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the systems of internal accounting and administrative control for the period referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however, in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations, except as follows:

Segregation of Duties

1. Cash is received, recorded in the books of account, and deposited to the bank by the Agency Fiscal Officer. This is an improper segregation of duties and is not in conformity with CETA guidelines.

Recommendations

- (1) The functions of receiving cash, recording cash receipts, and depositing cash to the bank should be performed by different employees.
 - (2) An independent listing of cash receipts should be prepared for later reconciliation with the accounting records.
2. Bank statements, accounting records, and blank and undelivered checks are all in the custody of the Agency Fiscal Officer. This person also prepares checks and reconciles the bank accounts. CETA guidelines require that custody of cash and record keeping for cash be assigned to different people, and that bank statements and cash reconciliations be subject to supervisory review.

Recommendations

- (1) Separate custody of cash from accounting for cash.
- (2) Institute a policy for management review of bank statements and cash reconciliations.

EXIT CONFERENCE

An exit conference was held at Helena, Montana on August 5, 1980. Those in attendance were:

Contractor:

Kathleen Richardson, Board Member
William Hedges, Employment and Training Director
Sharon LaBuda, Field Learning Coordinator
Ann Ash, Fiscal Officer

Prime Sponsor:

Florine Smith, Fiscal Bureau Chief
Gary McDanel, Fiscal Manager

Auditors:

Richard Burris, Manager
William Erickson, Staff
Norm Kolpin, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the need for change.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

McGladrey Henderson & Co.

Billings, Montana

May 2, 1980

DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

CETA CONTRACT NO. 9139, TITLE IV

STATUS OF FEDERAL CASH

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979

CASH ON HAND, November 1, 1978	\$ -
INCREASES-	
Federal cash received	12,917
DECREASES-	
Gross disbursements	- <u>12,321</u>
CASH ON HAND, June 30, 1979	<u>\$ 596</u>

See Note to Schedules and Exhibits.

DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

CETA CONTRACT NO. 9139, TITLE IV

FIELD LEARNING COORDINATOR

STATEMENT OF ACCRUED EXPENDITURES

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979

<u>COST CATEGORY</u>	<u>Total Contract Budget</u>	<u>Total Accrued Expendi- tures</u>
Administration	\$ 1,440	\$ 1,497
Wages	10,342	9,864
Fringe benefits	1,079	938
Local travel	400	264
Other	<u>985</u>	<u>812</u>
Total	<u>\$ 14,246</u>	<u>\$ 13,375</u>

See Note to Schedules and Exhibits.

DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

CETA CONTRACT NO. 9139, TITLE IV

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979

<u>COST CATEGORY</u>	<u>Total Amount Questioned</u>	<u>Supporting Exhibit</u>
Administration	\$ 1,401	I-A
Local travel	233	I-A
Other	<u>760</u>	I-A
Total	<u><u>\$ 2,394</u></u>	

See Note to Schedules and Exhibits.

DISTRICT IV HUMAN RESOURCES DEVELOPMENT COUNCIL

CETA CONTRACT NO. 9139, TITLE IV

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM NOVEMBER 1, 1978 TO JUNE 30, 1979

1. Allocated administrative costs of \$1,401 were questioned as no documentation was retained to support the method of allocation. The entire amount of allocated administrative costs has been questioned.
2. Local travel costs of \$233 were questioned because they were incurred for transportation of YETP participants. The contract does not provide for these costs, which should have been charged to the YETP program. Four payments were questioned:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
3/12/79	1039	\$ 23
4/20/79	1186	74
4/29/79	-	72
5/11/79	1237	64
		<u>\$ 233</u>

3. A resource material cost of \$760 was questioned because no documentation could be located for the expenditure. Such documentation is required by CETA regulations.

See Note to Schedules and Exhibits.

NOTE TO SCHEDULES AND EXHIBITS

SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

No program income was received by the contract program during the period covered by these Schedules.

A P P E N D I X

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT AND TRAINING DIVISION



THOMAS L. JUDGE, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 449-5600

HELENA, MONTANA 59601

September 22, 1980

Matt Hims1, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59601

Dear Mr. Hims1:

Enclosed is the draft Audit Report which we have accepted for District IV Human Resources Development Council, Havre, Montana for CETA Fiscal Year 1979 Subgrant:

9139 - Title IV, Field Learning Coordinator

This audit was conducted by McGladrey, Hendrickson & Co., CPA's, under contract with the Employment and Training Division, Department of Labor and Industry. The comments and recommendations contained in this report represent the views of the auditing firm.

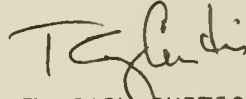
Upon your review of this audit report, we will begin a 120 day resolution process with the subgrantee as follows:

1. A copy of the final audit report will be sent to the subgrantee for a thirty (30) day comment period. All findings and recommendations are to be addressed by the subgrantee in their response.
2. The Employment and Training Division will issue a written initial determination which will include a notice giving the subgrantee the opportunity for informal resolution.
3. The subgrantee must request an opportunity for informal resolution within ten (10) days in writing. Following the meeting of all appropriate parties, the Employment and Training Division will notify the subgrantee in writing of the nature of the resolution, if all matters have been informally resolved.
4. The Employment and Training Division will issue a final determination no later than 120 days after the audit report has become final. The final determination will include those matters which were not informally resolved, corrective actions

which will be necessary, and inform the subgrantee of the opportunity to request a hearing. Within thirty (30) days of the receipt of the final determination, the subgrantee must submit in writing a request for hearing to the Employment and Training Division.

The Employment and Training Division will attempt to recover all funds which were not expended in accordance with CETA law and regulations. We will also follow-up on any corrective actions necessary for the subgrantee.

Sincerely,


T. GARY CURTIS
Administrator

Enclosure

FB2/A

